LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7000 | **NOTE PREPARED:** Jan 19, 2009
BILL NUMBER: SB 527 | **BILL AMENDED:**

SUBJECT: Income Tax Credit for Long-Term Care Insurance.

FIRST AUTHOR: Sen. Leising | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State and Local
DEDICATED
FEDERAL

Summary of Legislation: The bill provides a credit against an individual's Adjusted Gross Income Tax liability for premiums paid for a qualified long-term care policy. The bill also eliminates the Adjusted Gross Income Tax deduction for premiums paid for a qualified long-term care policy.

Effective Date: January 1, 2010.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the tax credit for partnership policies in lieu of the current income deduction. The DOR's existing budget and resources should be sufficient to implement these provisions.

Medicaid Program: To the extent that the credit encourages purchases of long-term care (LTC) insurance that would not have occurred otherwise, there is some potential for a reduction in future Medicaid expenditures. However, if people switch from non-Partnership policies to Partnership policies due to the tax credit, it could increase future Medicaid expenditures. This would result since Partnership policy holders do not have to spend down assets before receiving Medicaid benefits to the same extent required under non-Partnership policies.

Explanation of State Revenues: *Summary* - The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers for premiums paid on LTC insurance policies that are sold through the Indiana Long Term Care (*Partnership*) Insurance Program. Current statute provides a deduction for premiums paid on Partnership policies. In 2010, the bill would eliminate the deduction and replace it with a tax credit equal to 50% of Partnership policy premiums paid by a taxpayer during the year. Thus, the bill increases the price discount of the state tax preference for Partnership policies by a factor of 15, from 3.4% to 50% of the policy premium.

The revenue loss due to this bill could potentially range from $132.0 M to $158.0 M in FY 2011, and if current trends persist, the revenue loss in FY 2012 could potentially range from $137.0 M to $165.0 M. These estimates are predicated on the following assumptions:

(1) A 100% response rate to the credit by current Partnership policy holders;
(2) All current holders of non-Partnership policies will switch to Partnership policies due to the 50% price reduction.
(3) The average policy premium is $2,000, so the 50% credit equal to $1,000 will generally be exhausted against the tax liabilities of policy holders.

The revenue loss due to the tax credit could be higher to the extent that the tax credit encourages purchases of Partnership policies that would otherwise not occur. Since the deduction is effective beginning in tax year 2010, the fiscal impact would begin in FY 2011. Revenue from the AGI Tax on individuals is deposited in the state General Fund.

Background - The bill eliminates the current deduction from AGI for premiums paid by individuals for LTC insurance policies purchased through the Indiana Long Term Care Insurance Program. In lieu of the deduction, the bill establishes a credit against the Individual AGI Tax liability equal to 50% of the premiums paid during a tax year for a Partnership policy. The credit may be taken only against tax liability, so it would not be refundable. However, the bill does not specify whether or not excess credits could be carried back or carried forward to other tax years.

As of June 2008 there were about 35,800 Partnership policies in force. In 2006, the deduction for Partnership policy premiums resulted in a revenue loss of about $875,000. It is estimated that the revenue loss could potentially grow to about $1.6 M in FY 2011 and $1.8 M in FY 2012. Assuming market penetration rates of 5% to 6%, it is estimated that there are about 86,000 to 110,000 policies in force that are not Partnership policies. Non-Partnership policy totals for 2010 and after are extrapolated from the 2008 estimate based on recent annual growth in the number of Partnership policies in force equal to about 4.6%. The average premium is assumed to be $2,000 based on survey research and the current average deduction for Partnership premiums. The average net tax liability after credits in 2006 was about $1,180. The lower and higher bounds are based on the differing market penetration rates.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the elimination of the deduction for Partnership LTC insurance premiums would serve to increase taxable income, counties imposing local option income taxes may, as a result, experience an indeterminable increase in revenue from these taxes.

State Agencies Affected: DOR.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: OFMA income tax database, 2000-2006; *Fact Sheet: Selected Long-Term Care Statistics*, Family Caregiver Alliance; *Characteristics of Long-Term Care Users*, U.S. Agency for Heathcare

Research and Quality, 1998; *Federal and State Initiatives to Jump Start the Market for Private Long-Term Care Insurance*, The Urban Institute, 2000; *Long-Term Care Insurance*, AARP Public Policy Institute, June 2007; Indiana Long Term Care Insurance Program, *Quarterly Statistical Reports* 2000-2008; 2006 U.S. Census data.

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